

MERRITT AREA FIRE DEPARTMENT

MISSAUKEE COUNTY, MERRITT, MICHIGAN

MARCH 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Merritt Area Fire Department	County Missaukee
Audit Date 3/31/04	Opinion Date 6/14/04	Date Accountant Report Submitted to State: July 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

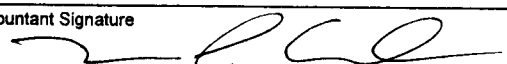
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.			
Street Address 134 West Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 7/14/04	

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

MARCH 31, 2004

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MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

June 14, 2004

INDEPENDENT AUDITORS' REPORT

To the Fire Board
Merritt Area Fire Department
Missaukee County
Merritt, Michigan

We have audited the accompanying general-purpose financial statements of the Merritt Area Fire Department, Merritt, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. The general-purpose financial statements are the responsibility of the Fire Department. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note I.B, the Fire Department's policy is to prepare its general-purpose financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances and general fixed asset balances of the Merritt Area Fire Department, Merritt, Michigan, at March 31, 2004, and the cash receipts it received and cash disbursements it paid and changes in general fixed assets for the year then ended on the basis of accounting described in Note I.B.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying financial information listed as "Financial Statements of Individual Funds" and "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements, and in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

COMBINED STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND ACCOUNT GROUP

MARCH 31, 2004

	GOVERNMENTAL FUND TYPES	ACCOUNT GROUP GENERAL	TOTALS (MEMORANDUM ONLY)
	GENERAL FUND	FIXED ASSETS	
<u>ASSETS AND OTHER DEBTS</u>			
<u>ASSETS</u>			
Cash	\$ 66,960	\$ 0	\$ 66,960
Land and Land Improvements	0	61,939	61,939
Buildings	0	90,439	90,439
Vehicles and Equipment	0	753,717	753,717
Furniture and Fixtures	0	8,273	8,273
 TOTAL ASSETS	 \$ 66,960	 \$ 914,368	 \$ 981,328
<u>LIABILITIES, EQUITY AND OTHER CREDITS</u>			
<u>LIABILITIES</u>			
Payroll Withholdings	\$ 125	\$ 0	\$ 125
<u>EQUITY AND OTHER CREDITS</u>			
Investment in General Fixed Assets	\$ 0	\$ 914,368	\$ 914,368
Balance			
Unreserved	66,835	0	66,835
 Total Equity and Other Credits	 \$ 66,835	 \$ 914,368	 \$ 981,203
 TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	 \$ 66,960	 \$ 914,368	 \$ 981,328

The accompanying notes are an integral part of these financial statements

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE
GOVERNMENTAL FUND TYPE
GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

RECEIPTS

Federal Grants	\$ 54,324
Contributions from Local Units	42,277
Interest and Rents	2,974
Charges for Services	26,317
Other Receipts	<u>2,043</u>
Total Receipts	\$ <u>127,935</u>

DISBURSEMENTS

Public Safety	
Personal Services	\$ 18,128
Supplies	918
Other Services and Charges	12,903
Other Functions	14,797
Capital Outlay	58,517
Debt Service	<u>28,614</u>
Total Disbursements	\$ <u>133,877</u>

Excess of Receipts Over (Under) Disbursements	\$ (5,942)
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<u>BALANCE</u> - April 1, 2003	<u>72,777</u>
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<u>BALANCE</u> - March 31, 2004	<u><u>\$ 66,835</u></u>
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The accompanying notes are an integral part of these financial statements.

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
<u>RECEIPTS</u>			
Federal Grants	\$ 60,360	\$ 54,324	\$ (6,036)
Contributions from Local Units	40,500	42,277	1,777
Interest and Rents	300	2,974	2,674
Charges for Services	22,247	26,317	4,070
Other Receipts	0	2,043	2,043
Total Receipts	\$ 123,407	\$ 127,935	\$ 4,528
<u>DISBURSEMENTS</u>			
Public Safety			
Personal Services	\$ 19,000	\$ 18,128	\$ 872
Supplies	1,500	918	582
Other Services and Charges	29,100	12,903	16,197
Other Functions	16,800	14,797	2,003
Capital Outlay	63,360	58,517	4,843
Debt Service	29,100	28,614	486
Total Disbursements	\$ 158,860	\$ 133,877	\$ 24,983
Excess of Receipts Over (Under) Disbursements	\$ (35,453)	\$ (5,942)	\$ 29,511
<u>BALANCE - April 1, 2003</u>	48,733	72,777	24,044
<u>BALANCE - March 31, 2004</u>	\$ 13,280	\$ 66,835	\$ 53,555

The accompanying notes are an integral part of these financial statements.

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Merritt Area Fire Department is a joint venture created in 1955 by Butterfield and Enterprise Townships. The Department was organized to better serve the citizens of both townships as authorized by 1951 PA 35 as amended. The Department is under the control of a Board consisting of three members from each township. The board members are appointed by the Townships' boards. The board's duties are to oversee operations, maintain assets, develop budgets for participating townships' approval and generally exercise on the Townships' behalf the powers granted by 1951 PA 88 as amended. Funding is provided by a millage levied on the member townships. The Fire Department's boundaries include all of Butterfield and Enterprise Townships. In addition, the Department contracts to provide fire service to surrounding townships.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Fire Department are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The Fire Department has the following fund types and account group:

Governmental funds are used to account for the Fire Department's general government activities. The Fire Department uses the flow of economic resources measurement focus and the modified cash basis of accounting for this fund which is an other comprehensive basis of accounting (OCBOA). Under the modified cash basis of accounting, revenues are recognized when collected (i.e., when cash is received). Expenditures are recorded when cash is disbursed.

Governmental funds include the following fund types:

The General Fund is the Fire Department's primary operating fund. It accounts for all financial resources of the Fire Department, except those required to be accounted for in another fund.

Account Group. The General Fixed Asset Account Group is used to account for fixed assets of the Fire Department.

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

C. Assets, Liabilities and Equity

1. Deposits and Investments

The Fire Department's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

I. The Fire Department's Board authorizes the Fire Department Treasurer to invest funds as follows:

- a In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c In repurchase agreements consisting of instruments listed in subdivision (a).
- d In bankers' acceptances of United States banks.
- e In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- f In mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with department to purchase only investment vehicles that are legal for direct investment by a public corporation. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. Fixed Assets

Fixed assets used in governmental fund types (general fixed assets) are accounted for in the General Fixed Assets Account Group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not included in the general fixed assets account group.

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

3. Memorandum Only - Total Columns

Total columns on the general-purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitated financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

4. Use of Estimates

This presentation of financial statements on the modified cash basis of accounting requires the Fire Department to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the cash basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on February 8, 2003, or as amended by the Fire Board from time to time throughout the year.

The appropriated budget is prepared by activity. The Fire Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire Department because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The Fire Department's deposits at year-end were entirely covered by Federal Deposit Insurance. At year-end, the carrying amount of the Fire Department's deposits was \$66,960 and the bank balance was \$63,428.

The carrying amount of the Fire Department's deposits at year-end are shown below:

Chemical Bank North	
Grayling, Michigan	
Money Market Accounts	\$ 45,309
Certificate of Deposit	<u>21,651</u>
TOTAL	\$ <u>66,960</u>

B. Fixed Assets

Activity in the general fixed assets account group for the Fire Department for the year ended March 31, 2004, was as follows:

	BALANCE 4/01/03	ADDITIONS	DELETIONS	BALANCE 3/31/04
Land and Land Improvements	\$ 61,939	\$ 0	\$ 0	\$ 61,939
Buildings	88,353	2,086	0	90,439
Vehicles and Equipment	697,286	56,431	0	753,717
Furniture and Fixtures	8,273	0	0	8,273
TOTAL	\$ <u>855,851</u>	\$ <u>58,517</u>	\$ <u>0</u>	\$ <u>914,368</u>

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

IV. OTHER INFORMATION

A. Property Taxes

Each Governmental Unit which is a member of the Fire Department levies property tax millage to support the Fire Department. The property tax collections and taxes receivable are recognized by the individual units and remitted to the Fire Department periodically. The Fire Department recognizes the funds received from the units as aid from other governmental units.

B. Risk Management

The Fire Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Fire Department participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions, and worker's compensation insurance. The Fire Department pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Fire Department has not been informed of any special assessments being required for the current year or the three prior years.

The Fire Department continues to carry insurance for other risks of loss, including fidelity bonds.

C. Interest Income and Expense

For the year ended March 31, 2004, interest income and interest expense is summarized as follows:

	INTEREST	
	INCOME	EXPENSE
General Fund	\$ 2,974	\$ 0

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

D Changes in Long-Term Debt

The following is a summary of the long-term debt transactions of the Fire Department for the year ended March 31, 2004:

	<u>LOANS PAYABLE</u>
Long-Term Debt Payable at April 1, 2003	\$ 28,614
New Debt Incurred	0
Payments on Debt	<u>28,614</u>
 LONG-TERM DEBT PAYABLE AT MARCH 31, 2004	 \$ <u><u>0</u></u>

E. FEMA Grant

The Fire Department will be receiving a FEMA grant in the amount of \$58,360. \$52,524 will be from the Federal government and \$5,836 will be from a local match. As of March 31, 2004, the Fire Department has not received or expended the funds yet.

F. DNR Grant

During the year the Fire Department was approved for a Michigan DNR grant in the amount of \$1,930. \$965 will be from the DNR and \$965 will be a local match. As of March 31, 2004, the Fire Department has not received or expended the funds yet.

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

GENERAL FUND

STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS
MARCH 31, 2004

ASSETS

Cash	
Money Market Account	\$ 45,309
Certificates of Deposit	<u>21,651</u>
TOTAL ASSETS	\$ <u>66,960</u>

LIABILITIES AND EQUITY

LIABILITIES

Payroll Withholdings	\$ 125
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BALANCE

Unreserved	<u>66,835</u>
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TOTAL LIABILITIES AND EQUITY	\$ <u>66,960</u>
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MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE
GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

RECEIPTS

Federal Grants		\$	54,324
Contributions from Local Units			42,277
Interest and Rents			
Interest Earnings			2,974
Charges for Services			
Fire Protection Contracts	\$	21,047	
Fire Runs		<u>5,270</u>	26,317
Other Receipts			
Miscellaneous			<u>2,043</u>
Total Receipts		\$	<u>127,935</u>

DISBURSEMENTS

Public Safety			
Personal Services			
Wages			
Officers	\$	900	
Chief		4,500	
Assistant Chief		2,000	
Secretary		1,200	
Treasurer		1,200	
Firemen		<u>8,328</u>	\$ 18,128
Supplies			
Office Supplies	\$	588	
Operating Supplies		<u>330</u>	918

MERRITT AREA FIRE DEPARTMENT
MISSAUKEE COUNTY, MERRITT, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE
GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

Other Services and Charges		
Training and Education	\$ 200	
Utilities	4,936	
Repairs and Maintenance	4,305	
Contracted Services		
Lawn Care and Snow Removal	1,446	
Legal and Professional	280	
Dues and Fees	190	
Gas, Oil and Foam	814	
Miscellaneous	732	12,903
Other Functions		
Insurance and Bonds	\$ 10,389	
Workers Compensation	3,022	
Social Security and Medicare	1,386	14,797
Capital Outlay		
Equipment	\$ 56,431	
Land and Improvements	2,086	58,517
Debt Service		
Principal	\$ 27,046	
Interest	1,568	28,614
Total Disbursements		\$ 133,877
Excess of Receipts Over (Under) Disbursements		\$ (5,942)
<u>BALANCE - April 1, 2003</u>		<u>72,777</u>
<u>BALANCE - March 31, 2004</u>		<u>\$ 66,835</u>

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CERTIFIED PUBLIC ACCOUNTANTS

June 14, 2004

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board
Merritt Area Fire Department
Missaukee County
Merritt, Michigan

During the course of our audit of the general-purpose financial statements of Merritt Area Fire Department for the year ended March 31, 2004, we noted the following items:

GASB 34

The Governmental Accounting Standards Board (GASB) has issued statement number 34 which will become effective for the Fire Department for the year ending March 31, 2005. We are available to assist the Fire Department in determining the effect this new pronouncement will have on the Fire Department as well as what the Michigan Department of Treasury will require of the Fire Department related to GASB 34.

Credit Card Policy

The Fire Department has obtained a credit card. The State of Michigan requires the entity to adopt a credit card policy per P.A. 266 of 1995.

941 Payroll Tax Returns

While reconciling the 941 Payroll Tax Returns to the payroll records it appeared as though the September 30, 2003, 941 was wrong. The Fire Department may want to look into amending the tax return and requesting a refund from the IRS.

We would like to thank the board for awarding our firm the audit assignment.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.

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June 14, 2004

LETTER OF REPORTABLE CONDITIONS

To the Fire Board
Merritt Area Fire Department
Missaukee County
Merritt, Michigan

In planning and performing our audit of the general-purpose financial statements of Merritt Area Fire Department, Missaukee County, Merritt, Michigan for the year ended March 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

The relatively small number of people involved in the accounting functions of the Fire Department make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.